STATEMENT

OF

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before the

COMMITTEE ON COMMERCE,
SCIENCE AND TRANSPORTATION
UNITED STATES SENATE

on the subject of

REFORMING CORPORATE AVERAGE FUEL ECONOMY (CAFE) STANDARDS

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Mr. Chairman, my name is Alan Reuther. I am the Legislative Director for the International Union, UAW. The UAW welcomes the opportunity to testify before the Commerce Committee to provide our union's views on reforming the Corporate Average Fuel Economy (CAFE) program.

The UAW represents more than 1.3 million active and retired workers in several major U.S. manufacturing industries, as well as in technical, office and professional sectors. The largest portion of UAW membership is involved in the manufacture of transportation equipment. This includes motor vehicles that cover the complete range of vehicle types and uses from passenger cars to light, medium and heavy-duty trucks, as well as motor vehicle parts covering all vehicle component systems. UAW members therefore have a strong interest in the CAFE program.

Of course, the UAW is particularly concerned about the impact of any changes in the CAFE program on the jobs of our members. Sales in the U.S. automotive industry are down this year, and are forecasted to drop again next year. The recession in the overall economy is likely to have a continuing negative impact on automotive sales and production. We have already seen substantial layoffs in the automotive industry, and are concerned about additional dislocation in the coming year. Against this backdrop, the UAW strongly believes that any changes in the CAFE program must not aggravate the difficult economic circumstances of the auto companies and their suppliers and result in additional job loss for American

workers.

The UAW supported the fuel efficiency measure enacted into law as part of the Environmental Policy and Conservation Act of 1975 because we viewed it as wise public policy. CAFE standards have helped to make our nation's light vehicle fleet more fuel-efficient, thereby generating real benefits to the nation. As a trade union we are concerned about our members' jobs; but a clean environment and energy conservation are also workers' concerns. In the past, we have supported policies that achieved environmental goals without undue dislocation. Today, I want to share with you our views on reforming CAFE in ways that offer environmental benefits to society without jeopardizing the jobs of our members, disrupting communities or causing unnecessary dislocation in the domestic automotive industry -- an industry vital to our nation's economic health.

The UAW has supported the principle of mandatory fuel economy standards for motor vehicles to help achieve the goals of energy conservation and reduced dependence on imported oil. We continue to support that principle today. The CAFE program has provided environmental benefits to society, without causing excessive dislocation in the domestic auto industry or reductions in the array of domestically built vehicles. We are committed to the U.S. remaining the production site for all types and sizes of vehicles for this market. The requirement for separate averaging of domestic and foreign fleets contributes to maintaining such full-line domestic production and is an important part of the current structure of the program. If increases in CAFE standards are technically feasible and economically practicable, and applied as a uniform percentage increase to each fleet average, we believe further progress on fuel economy could be achieved without job dislocation or disparate impacts on manufacturers.

We also know that vehicle fuel economy standards alone cannot satisfy the nation’s energy conservation and environmental protection needs. Measures to improve energy conservation, provide clean fuels and reduce emissions are required throughout the U.S. economy. The federal government's continued commitment to fund R&D on advanced vehicle technologies is also needed, as are tax credits for advanced, highly fuel-saving vehicles. The nation needs a comprehensive and balanced strategy to achieve energy conservation, environmental and public health protection, and economic growth.

U.S. energy conservation needs are even more critical now than they were in 1975. Scientists have concluded that gasses emitted when fossil fuels are burned accumulate in the stratosphere creating a greenhouse effect, which causes a long-term, gradual global warming trend. While there is no consensus about the timing and degree of the warming trend, there is little disagreement that it will occur. As an imperative for fuel conservation, we now add the problem of global warming to the problems of finite fossil fuel reserves and growing dependence on foreign oil. We also recognize the nation’s interest in improving the fuel economy of vehicles sold

and operated in the U.S. without sacrificing other important objectives, such as high levels of employment, safety and environmental standards, the financial viability of the automotive industry and the affordability of vehicles for consumers.

Fleetwide Averages

The UAW has supported the approach that requires the fuel economy of each company to be averaged across the entire fleet and to be at or above a minimum standard. This approach guarantees that progress in fuel economy will be made, but allows manufacturers sufficient flexibility to meet standards efficiently and without dislocation. Since it is not always possible to raise the fuel efficiency of all models simultaneously, continued use of a fleetwide average for calculating compliance provides manufacturers the flexibility they need to introduce fuel-saving technologies for a specific range of vehicles at any given time.

Our view is that a fleetwide average allows companies to build an adequate range of vehicles to satisfy consumer tastes and the needs of the market. As long as vehicles in most size classes are making steady progress toward improved fuel economy, the requirement of energy conservation can be met. At the same time, manufacturers require the flexibility to focus technological improvements and redesign efforts on a limited range of vehicles at any given time in each design cycle rather than instituting sweeping changes across the entire fleet. The fleet average approach thus tends to be less costly for American consumers who have to absorb the cost of new technology in higher vehicle prices -- a cost recouped over time in lower fuel costs per mile.

We believe that fleetwide averaging offers an incentive to manufacturers to focus production, engineering and sales efforts on small vehicles, which can be used to offset the lower fuel economy of more profitable, larger vehicles. In our judgment, it is important that domestic manufacturers be encouraged to continue putting effort into the design and development of domestically-produced smaller vehicles in order to be competitive with manufacturers focused more on the low end of the market. It is our hope that maintaining the fleetwide averaging in the CAFE program can slow or reverse the loss of jobs in small car production and provide an incentive to shift the sales mix toward more fuel-efficient vehicles.

Finally, we note that in the past decade, as the inflation-adjusted price of gasoline fell, demand for higher performance vehicles increased. Companies already having difficulty meeting fuel economy standards because of the number of large vehicles in their sales mix could not meet the increased demand for high performance models as readily as manufacturers exceeding the standards due to their historical focus on small vehicles. **Thus, the UAW believes it is particularly important that any future changes in the CAFE standards should ensure that full-line manufacturers are not placed at a competitive disadvantage relative to companies that historically have specialized more in the production and**

sale of small vehicles.

Separate Domestic and Import Fleet Averages

In 1975, we supported the approach to CAFE standards that required the fuel economy of each company to be averaged across separate domestic and foreign fleets. We endorsed this provision because we were concerned that domestic manufacturers, comparatively inexperienced in small vehicle production, would try to meet the fuel economy standards by importing small vehicles. Since U.S. firms would need small vehicles in their domestic CAFE fleet to offset the low fuel economy of larger vehicles, we viewed separate averaging as discouraging the sourcing of small vehicles abroad and encouraging production of such models in this country.

The UAW is aware that the positive impact of separate fleet averaging has narrowed over time. The two-fleet requirement has applied only to passenger cars since model year 1996, after the Department of Transportation eliminated the requirement for light trucks, a change the UAW opposed. Even with the growing popularity of trucks, passenger cars still account for half of total U.S. light vehicle sales. In addition, NAFTA has expanded the definition of "domestic content" to include Mexican value-added. This makes it easier for a company to concentrate more small car production in Mexico, while retaining such models in the calculation of its domestic fleet average to offset larger U.S.-built car models. Finally, companies have been able to game the two-fleet requirement by shifting car models from their domestic to import fleets by adjusting domestic content.

Nevertheless, the UAW opposes elimination of the requirement that each firm comply with the fuel economy standards separately for its domestic and foreign sales. The UAW is very strongly committed to the U.S. remaining the production site for all types and sizes of vehicles for this market. The two-fleet requirement contributes to maintaining this full-line production. We would welcome proposals to strengthen its role if they ensure enhanced domestic production and jobs, maintenance of full-line U.S. manufacturing and an increased amount of U.S. content. On the other hand, the UAW will oppose attempts to weaken the impact of the two-fleet requirement.

The UAW continues to be deeply concerned about the outsourcing of small car production. While our main concern is the thousands of jobs this trend has cost our country, small car outsourcing is more than a jobs issue. It also threatens our automotive base in the long run. U.S. firms have taken a shortsighted approach to the challenge of foreign competition in the subcompact market, and we fear they will take a similar shortsighted approach in the compact market. If the compact market goes as the subcompact market has gone, before too long there will be no U.S. designed and built subcompact or compact vehicles. If the trend toward fuel conservation and self-reliance continues, as it should, small cars may again be the

vehicle of choice for many consumers. Unless we retain domestic sourcing of small car production, consumers would be forced to purchase foreign-made vehicles.

Some foreign companies have claimed the two-fleet requirement constrains their ability to increase the domestic content of their vehicles, thereby restricting job growth in the U.S. The UAW has long observed the relatively lower domestic content of vehicles that foreign companies have sold in the U.S., which is the result of structural trade-related imbalances, not the two-fleet requirement. The UAW continues to urge the U.S. government to effectively address our nation's structural trade problems. We also have long urged foreign companies to increase domestic sourcing of automotive components from long established, high-quality U.S. suppliers. Such actions would lower the excessive U.S. auto parts trade deficit, create jobs in the domestic industry and increase the U.S. content of both imports and those vehicles produced in the U.S. plants of foreign companies.

Technological Feasibility and Economic Practicability

The UAW does not oppose an increase in the fuel economy requirements for motor vehicles, but we do oppose increases that would place the jobs of our members and other workers in serious jeopardy. We believe the manufacturers will be making fuel economy improvements in the future. But it is essential that any increases that may be required by federal law be technologically feasible. Increases that are not technologically feasible would force significant changes in the kinds of automobiles and light trucks the manufacturers produce. If, for example, the product mix had to change in a way that would cause production of family-sized, larger and less fuel-efficient vehicles to be phased out, plant closings and permanent job loss for workers in those plants and in related industries would inevitably result.

Motor vehicles produced in this country and those imported into this country should be more fuel-efficient. We need improvement – especially now, given our need to develop more effective energy conservation programs, our need to confront the uncertainties of future energy supplies, our need to become more energy-independent and our need to address environmental concerns. At the same time, federal mandates in the areas of safety and emissions must be given full weight in setting fuel economy standards. These areas of public policy are no less important than fuel conservation, and advances must be made together, recognizing how each impacts the others.

How fuel-saving technologies are implemented is an important element in determining what is technologically feasible. It is important to recognize that the rate of market penetration of different technologies varies. There may be technical, financial, regulatory, organizational, and marketing limitations to deploying them. Moreover, the existence of new technologies does not mean that their full potential to raise fuel economy will necessarily be realized. The setting of standards cannot,

therefore, assume full implementation of all technologies capable of being commercialized without qualifications. Lead-times needed to design, engineer, test and build new models in the automotive industry are often underestimated. It is important that lead times and other practical limitations on deployment of technologies be taken into consideration when setting standards.

Economic practicability is another factor that needs careful consideration in determining feasible standards. We strongly believe that the potential impact of fuel economy standards on industry employment must be considered. The nation would be poorly served if fuel economy gains were achieved at the cost of the loss of thousands of high productivity, high wage jobs that cannot be replaced. The current U.S. recession has contributed to sizeable losses in the domestic automotive industry, thereby lessening the near-term ability of the corporations to undertake the necessary investments to raise fuel economy. The financial condition of the auto companies must be taken into account in the standard-setting process. Economic practicability must also include
consideration of the cost effectiveness of the various means available to raise fuel economy. Achieving mandated higher fuel economy standards for new vehicles relies on consumers buying the new vehicles. If the cost of the vehicles is beyond the means of consumers, or puts new cars at a disadvantage relative to used cars, little will have been accomplished. The standards must also not assume the implementation of technologies that have excessive payback periods.

Finally, we also believe it is important to retain the existing administrative discretion to relax or strengthen standards. It is impossible to anticipate all events in the short- and long-term that may prevent manufacturers acting in good faith from complying with the law.

Uniform Percentage Increase Approach

The UAW strongly believes that any future mandated increase in standards should take the form of a uniform percentage improvement in average fuel economy, for each company and for each fleet, domestic and import, from a designated base period. This reform of the CAFE program directly addresses some of the problems in the existing standards.

First, if compliance is measured by a percentage improvement in fuel economy averages, all companies must improve their fuel economy regardless of their current status. That should reduce any CAFE-related competitive disadvantage that may exist for full line producers. Companies that have been able to exceed the standard based on vehicle mix alone would now be forced to adopt widely used technologies. Moreover, companies would risk falling short of the standard if they move into high performance niches. It is our hope that if all firms face a common risk in moving upscale that all will be reluctant to do so. At the very least, it will be more difficult for the Department of Transportation to accept the argument that the standard should

be relaxed because it puts some firms at a competitive disadvantage. In contrast to the current statute, we are more likely to see fleetwide improvements in fuel economy since all companies would be discouraged from moving into higher performance vehicles.

Second, in contrast to the current approach, the percentage improvement requirements would make it difficult to raise the fuel economy average of the domestic fleet by shifting low fuel economy vehicles into the import fleet, since the company would be required to achieve improvements in both fleets. Because the principle of fleetwide averaging is preserved, the companies would still have the flexibility to develop new technologies for a limited range of vehicles at any one time.

For these reasons, the UAW believes that requiring separate import and domestic fleetwide average uniform percentage increases in fuel economy would be an effective improvement over the existing standards.

Opponents of the uniform percentage increase approach have incorrectly argued that it would unfairly penalize "technology leaders." But the truth is the current differences in the average fuel economy of the fleets sold by the domestic full-line manufacturers and some foreign companies are due mostly to differences in their product mix, not to differences in technology. The addition of ceilings and floors to the uniform percentage increase approach would ensure that all companies fairly contribute to improvements in fuel economy.

Fair and Balanced Energy and Environmental Policies

We recognize that automotive fuel economy standards alone are not an adequate solution to the need for energy conservation and environmental protection, and that more needs to be done. Promising technologies with the potential to improve fuel economy and reduce auto emissions require ultra-clean fuels. The UAW strongly supports national controls that would reduce sulfur content in gasoline and diesel fuels to nearly zero. Clean fuels will not only increase the effectiveness of current vehicle technologies, but also enable advanced vehicle technologies under development that offer significant future environmental benefits. Gasoline direct injection (GDI) engines and fuel cell propulsion systems, for example, promise such benefits, but both are highly sensitive to sulfur. For the American automotive industry to stay technologically competitive, and for our country to gain the environmental and economic benefits associated with new technologies, it is vitally important that they be developed, manufactured and sold in the United States

The federal government has played a crucial role in funding research and development of advanced vehicle technologies for more than 25 years. The UAW supports a continuation and strengthening of this federal commitment. To achieve such goals and thereby gain broad benefits, a sustained, well-funded and

coordinated federal involvement is necessary, including collaborative efforts with domestic auto manufacturers and suppliers. Such efforts not only will help promote the development of advanced conventional technologies that offer improved fuel savings of vehicles powered by today's internal combustion engines. In addition, sustained federally funded R&D efforts centered on leapfrog technologies, such as fuel cell and electric-powered vehicles, present opportunities to make dramatic improvements in the environmental performance of future automobiles. Whether for advanced conventional or leapfrog technologies, such development efforts are needed to keep the domestic auto industry at the forefront of global vehicle manufacturing.

If the United States takes the lead in developing energy-efficient products and new energy-saving technologies that are domestically produced and used here and around the world, we will create more jobs for American workers, while bettering public health and environmental protections. To accelerate the introduction and penetration of advanced vehicles into the U.S. light vehicle market, the UAW supports federal tax credits for the sale of fuel-efficient, advanced vehicles. These include electric, fuel cell and qualified hybrid vehicles. Our view is that the sale of vehicles qualifying for federal tax credits should not only possess specified advanced vehicle technologies, but that such vehicles should also provide environmental benefits through substantial fuel economy improvements.

Another enhancement of domestic employment opportunities would flow from expanded investment in our nation's transportation infrastructure to reduce congestion and improve efficiency. A broad national transportation plan should embrace creative, community-based approaches. This avenue recognizes the important role of affordable public transit systems and other energy-saving alternatives to private motorized modes of transportation.

The UAW also has advocated the establishment of a federal agency to coordinate research on fuel economy and emissions technology and we have called for a comprehensive energy and transportation policy to promote other approaches to fuel conservation. To ensure that workers adversely affected by fuel-economy related actions do not suffer unduly from these policies, we also support a full range of job retraining, job search and income support programs for any dislocated workers. Unfortunately, these proposals were not included in the law enacted in 1975 and have not been added since.

Standard Harmonization, Flat MPG Approach,
Weight-Based Structure and Credit Trading

Several alternative proposals on reforming or changing CAFE standards have been offered. These include an upward harmonization of the light truck standard to that for passenger cars; applying a flat mpg increase to the current standards; a shift from fleetwide averaging to an unspecified weight-based structure; and a system of

credit trading. The UAW is deeply concerned that these proposals could cause substantial dislocation in the domestic automotive industry and result in the loss of thousands of jobs for American workers.

One approach to reforming CAFE (such as the Feinstein-Snowe bill or the Markey-Boehlert amendment) proposes that the standard for light trucks be harmonized upward to the substantially higher level established for passenger cars. The implementation of such proposals would impose severely disparate impacts on domestic full-line manufacturers with serious adverse effects on the jobs of our members. The UAW therefore strongly opposes such proposals. Domestic full-line manufacturers have responded to strong consumer preferences for light trucks by dramatically shifting their U.S. capacity to meet that demand. As a result, today the U.S. production and sales mix of domestic full-line automakers are much more oriented to light trucks compared to foreign companies that have historically focused on the passenger car segments of the market. Upward harmonization of the light truck CAFE standard to meet the car standard would thus place domestic full-line manufacturers at a strong competitive disadvantage relative to foreign companies that are more specialized in cars. This would put at risk the jobs of our members who work in light truck assembly plants and at associated supplier operations.

Another approach to changing CAFE would be to simply apply a flat mpg increase to the current standards. This approach also has a discriminatory impact on domestic full-line producers due the nature of their product mix relative to the other producers that have historically focused on smaller automobiles. This disparate impact would be exacerbated if the flat mpg increase approach were combined with the upward harmonization approach for light trucks. The UAW strongly opposes such proposals because they could cause serious dislocation among our members.

A third approach to reforming CAFE would allow the CAFE structure to be changed to an unspecified weight-based structure through rulemaking. The UAW is concerned that this approach would give regulatory authorities excessive latitude over how the fuel economy standards would be structured in the future. Such open-ended authority would permit a shift from the fleetwide average approach that the auto industry has used for a quarter century – an approach that balances effectiveness and flexibility, and helps ensure continued domestic full-line production -- to an unknown alternative that could further jeopardize U.S. small car production and possibly have a disparate impact on full line producers. The UAW therefore opposes open-ended regulatory authority to change CAFE to an unspecified weight-based structure.

Finally, proposals have also been advanced that would allow companies to trade credits earned by exceeding the fuel economy standards between classes of vehicles and between firms. We cannot be certain how this trading would work, as there has been no similar experience to demonstrate its effect. We can easily

foresee circumstances, however, in which domestic full-line producers would end their U.S. production of small cars, fail to reach the fuel economy standards for their domestic fleet and purchase credits from their own foreign fleet or from other producers to achieve compliance. In this case, the U.S. industry would lose much of its small car production capability, with potentially serious consequences for domestic output and employment, and with no overall improvement in fuel economy. As previously indicated, the UAW is deeply concerned about the long term threat this would pose to our automotive base.

In conclusion, the UAW appreciates the opportunity to present our views on the subject of reform the CAFE program. We look forward to working with you, Mr. Chairman, and the other Members of this Committee on this important issue. Thank you.

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